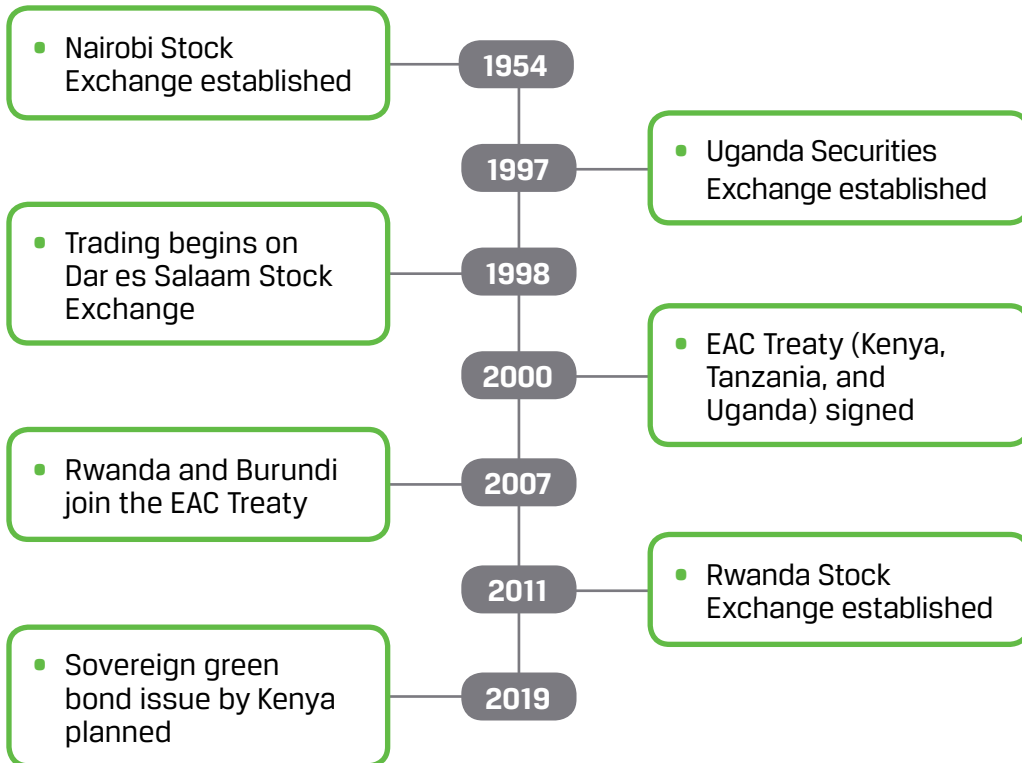
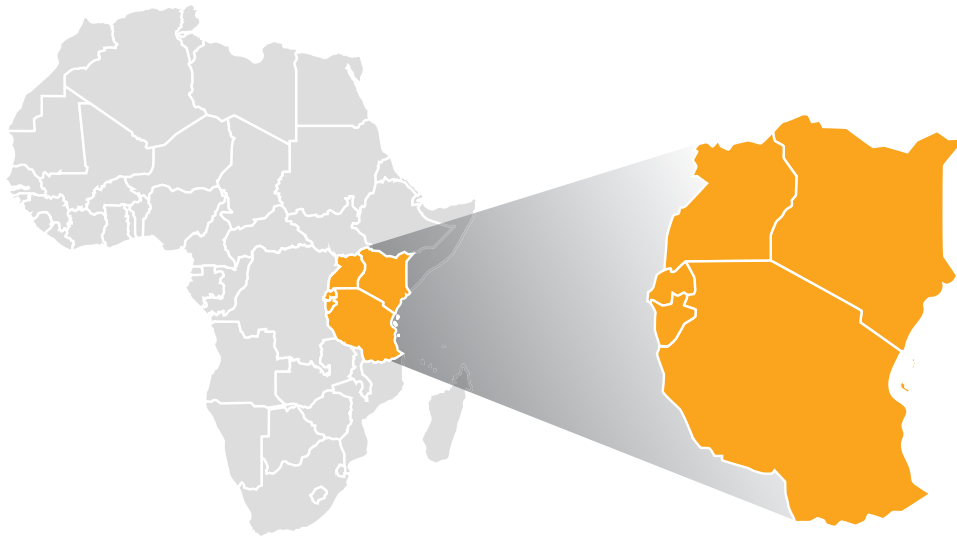


# EAST AFRICA



## EAST AFRICA

### KENYA

**\$20.64 Bn**  
Equity Market  
Capitalization

**\$15.55 Bn**  
Debt Market  
Capitalization

**63**  
Number of  
listed  
companies

**16**  
Number of  
issuers  
(bonds)

**23.44%**  
Domestic  
Equity Market  
Cap/GDP

**23.48%**  
Total Equity  
Market Cap/  
GDP

**17.68%**  
Domestic  
Debt Market  
Cap/GDP

**6,335,817,398**

Equity Market Share Volume Traded

**562,716,006,443**

Debt Market Instrument Volume Traded

### TANZANIA

**\$8.61 Bn**  
Equity Market  
Capitalization

**\$4.03 Bn**  
Debt Market  
Capitalization

**28**  
Number of  
listed  
companies

**4**  
Number of  
issuers  
(bonds)

**8.08%**  
Domestic  
Equity Market  
Cap/GDP

**16.37%**  
Total Equity  
Market Cap/  
GDP

**7.96%**  
Domestic  
Debt Market  
Cap/GDP

**790,309,259**

Equity Market Share Volume Traded

**1,063,000,000**

Debt Market Instrument Volume Traded

### UGANDA

**\$6.4 Bn**  
Equity Market  
Capitalization

**\$0.67 Bn**  
Debt Market  
Capitalization

**17**  
Number of  
listed  
companies

**2**  
Number of  
issuers  
(bonds)

**6%**  
Domestic  
Equity Market  
Cap/GDP

**23.29%**  
Total Equity  
Market Cap/  
GDP

**0.3%**  
Domestic  
Debt Market  
Cap/GDP

**589,600,000**

Equity Market Share Volume Traded

**0**

Debt Market Instrument Volume Traded

### RWANDA

**\$3.35 Bn**  
Equity Market  
Capitalization

**\$0.28 Bn**  
Debt Market  
Capitalization

**8**  
Number of  
listed  
companies

**2**  
Number of  
issuers  
(bonds)

**56.59%**  
Domestic  
Equity Market  
Cap/GDP

**360.13%\***  
Total Equity  
Market Cap/  
GDP

**30.52%**  
Domestic  
Debt Market  
Cap/GDP

**83,854,000**

Equity Market Share Volume Traded

**9,740,400,000**

Debt Market Instrument Volume Traded

\*Includes cross-listed stocks and/or ETFs.

# EAST AFRICA

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The East African Community (EAC) is a regional intergovernmental organisation of six partner states—namely, Kenya, Tanzania, Uganda, Rwanda, Burundi, and South Sudan—with headquarters in Arusha, Tanzania.<sup>22</sup> In 1977, the initial organisation had collapsed, and it wasn't until November 1999 that the re-unification of the organisation took place, under the leadership of the then president of Kenya, president of Uganda, and president of Tanzania.

The EAC has a population of 172 million citizens, a land area of 2.5 million square kilometres, and a combined GDP of USD172 billion, and thus, its realization bears great strategic and geopolitical significance and prospects. As one of the fastest-growing regional economic blocs in the world, the EAC is widening and deepening cooperation among the partner states in various key spheres for their mutual benefit.

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<sup>22</sup>The EAC Treaty came into force on 7 July 2000 with Kenya, Tanzania, and Uganda. Rwanda and Burundi joined in 2007, and the Republic of South Sudan, in 2016.

The Nairobi Stock Exchange (NSE) was established in 1954—the first stock exchange established to cater to the EAC partner states under British rule—namely, Kenya, Uganda, and Tanzania. In 1977, the collapse of the EAC enabled the NSE to become a fully Kenyan outfit, with all the non-Kenyan companies delisted and nationalised in their respective countries of Uganda and Tanzania. It was not until the 1990s that Uganda and Tanzania established their own national stock exchanges: the Uganda Securities Exchange (USE) in 1997 and the Dar es Salaam Stock Exchange (DSE) in 1998. The Rwanda Stock Exchange (RSE) followed in 2011. Burundi has yet to establish a capital market, but plans are underway. Both the NSE and DSE are demutualised entities and self-listed in their respective bourses. Besides equities, the stock exchanges provide a debt market for trading government and corporate bonds.

Currently, the NSE, DSE, USE, and RSE trade on the Automated Trading System (ATS) with

settlement within three days. As of August 2019, the four EAC stock exchanges command a combined equity market capitalisation of above USD22 billion, for which the NSE accounted for 55% with a market cap of USD20 billion.

The five partner states of the EAC together developed the Capital Markets Infrastructure (CMI), a technology platform designed to link the capital markets of the EAC partner states. CMI connects the exchanges and central securities depositories of East African countries. The DSE, USE, and RSE are currently available through CMI, with plans to link the NSE.

## EQUITY MARKETS

The four currently operational stock exchanges—Kenya, Uganda, Tanzania, and Rwanda—have a total of 118 stocks listed and cross-listed regionally: NSE with 63, DSE with 28, USE with 19, and RSE with 8. **Table 1** shows the listings on these exchanges.

Institutional investors, mutual funds, and foreigners are the main investors in equities in these markets, followed by high-net-worth and retail investors.

### Kenya

Kenya's equity market, the Nairobi Securities Exchange (NSE), is the most vibrant and diverse in the region. It changed its name from the Nairobi Stock Exchange in July 2011 to the Nairobi Securities Exchange.

Today, its equity market segments are the Main Investment Market Segment (MIMS), the Alternative Investment Market Segment (AIMS), and the Growth Enterprise Market Segment (GEMS). The main indices at the NSE include the NSE All-Share Index (NASI), NSE 20, FTSE NSE Kenya 15, and FTSE NSE Kenya 25.

In addition to equities, the NSE hosts debt securities—government and corporate issues, REITs, and an exchange-traded fund (ETF) based on gold bullion. The derivatives market only has two instruments: equity index futures and single-stock futures, with the NSE 25 Index and listed stocks serving as the underlying assets, respectively.

The Kenyan financial sector has the lion's share of listed companies at 29%, with banks accounting for 19%. In terms of market capitalisation, the telecommunications and technology sector is the largest, solely attributed to Safaricom PLC (SCOM), capped at USD1.0 billion (KES1,001 billion) as of the end of July 2019; compare that with the entire bourse's market cap of USD22.60 billion (KES2,260 billion).

### Tanzania

Tanzania's Capital Markets and Securities Authority (CMSA) was established in 1994, with the incorporation of the Dar es Salaam Stock Exchange (DSE) and approval of stock exchange rules in 1996. The DSE continues to provide a responsive securities exchange that promotes economic empowerment and contributes to the

**TABLE 1. LISTINGS ON EAST AFRICA STOCK EXCHANGES**

	Kenya	Tanzania	Uganda	Rwanda
Listed companies	63	28	19	8
Local	61	22	11	4
Cross-listed	2	6	8	4

country's economic development by offering a range of attractive and cost-effective products and services. Incentives to issuers include

- reduced corporation tax, from 30% to 25%, for three successive years after listing for any company that has issued at least 25% of its shares to the public and
- tax deductibility of all IPO costs.

Investors benefit from zero capital gains tax, versus 10% for unlisted companies; zero stamp duty on transactions executed at the DSE, compared with 6% for unlisted companies; withholding tax of 5% on dividend income, versus 10% for unlisted companies; and zero withholding tax on interest income from listed bonds whose maturities are three years or longer.

The Treasury bond market has four maturities (2, 5, 7, and 10 years) that are issued in the primary market. The market is dominated by pension funds. The auction is held once every month. The bonds are listed at the DSE, but secondary market trading of government bonds is not vibrant.

## Uganda

The Capital Markets Authority (CMA) of Uganda is a semi-autonomous government body responsible for the financial regulation of the country's capital markets. The CMA has been driving campaigns to improve public education for issuers and investors through face-to-face presentations while developing and regulating the capital markets industry with the overall objectives of investor protection and market efficiency.

The market has been stagnant because the devaluation in the Ugandan shilling discouraged investments in the country. The country is facing dozens of challenges related to access

to affordable capital; commercial bank interest rates remain high at 22%.

## Rwanda

In 2015, the Rwanda Ministry of Finance and Economic Planning mandated CMA Rwanda to develop a capital market master plan (CMMP), setting the CMA's policy strategy for the next 10 years.

In this respect, Rwanda's capital market was established under the Capital Market Act in 2011. The CMMP created an opportunity to raise funds for investment—mainly, the development of mega-infrastructure projects.

The CMMP is aimed at helping deepen debt markets, expand listings on the Rwanda Stock Exchange (RSE), develop an ecosystem of financial sector intermediaries, and further integrate Rwanda's capital markets with those of its East African peers.

Since inception, the CMA has been able to mobilise capital worth more than USD300 million. To attract investments in the sector, the government has provided several incentives—among them, exemption of capital gains and a value-added tax (VAT) on secondary market transactions.

Local and international portfolio investors have an opportunity to own assets in the banking and telecom sectors and the domestic bond market. The RSE remains vibrant, providing a trading platform for stocks, bonds, and other investment instruments.

## Challenges and Opportunities

The EAC equity markets have made some tremendous improvements over the years in terms of regulation, investor education, and trade automation—all of which have opened avenues for trading.

Some of the notable remaining challenges include

- Low liquidity across the region's stock markets. Some of the leading factors of low liquidity are weak market fundamentals, low free floats except for a few blue chips, and low market access by local retail investors.
- Dependence on foreign investors, mainly from emerging markets and investors investing with a dollar-based currency. Policy changes by the US Federal Reserve play a huge role in the position these investors take, which makes the EAC market vulnerable.
- Drastic policy changes that have detrimental effects on economic growth. For example, the implementation of the interest rate cap in Kenya in 2016 led to a decline in private sector credit growth, resulting in low returns and profit warnings from most corporations.
- A weak local currency in Tanzania, Uganda, and Rwanda, which has played a role in discouraging foreign investors because of high foreign exchange risk.
- Stock price volatility in the less-developed markets, such as Tanzania, that has led to a decline in investor participation.
- Lack of local investor confidence and risk appetite is still prevalent, despite heightened awareness about the benefits of investment in the stock market. For instance, in Tanzania, participation is about 1.5% of the population.
- High requirements and costs associated with the listing of new entrants in Kenya. A reduction in brokerage fees would be welcome; East African stock markets are rated as the most expensive in Africa.
- A lack of product diversity relative to other emerging markets.

Despite these challenges, East Africa's economy is the fastest growing in sub-Saharan Africa in the past three years. The region also woos foreign investors, with foreign direct inflows of more than USD9 billion in 2018. Despite a bearish regional stock market characterised by declining share prices and low trade volumes and market cap, EAC equity markets remain an attractive investment vehicle for both local and international investors.

In Kenya going forward, we expect improved liquidity with the repeal of interest rate capping, which will further spur private-sector-led growth. The shilling is likely to remain strong against the dollar, hence keeping foreign exchange risk at bay. Tanzania, Uganda, and Rwanda policymakers are also keen to stabilise their local currencies and the macroeconomy to offer a more conducive investment environment. The CMA Kenya plan to "create a vibrant and globally competitive financial sector that will promote a high level of savings to finance Kenya's overall investment needs"<sup>23</sup> is geared to increase activity and provide small and medium enterprises (SMEs) with broad opportunities to raise funds and stimulate growth. The Ibuka incubation and acceleration program by the NSE, which kicked off in January 2019, identified 20 SMEs that will be offered financial advice and access to strategic investors.

Continued sensitisation by the four bourses on increasing savings and the benefits of investing is expected to yield better results in increasing local participation and thus liquidity.

## DEBT MARKETS

The EAC's bond markets (see **Table 2**) are now widely recognized as playing an important role in promoting the effectiveness of macroeconomic

<sup>23</sup>Kenya Foreign Policy and Government Guide, vol. 1 (2004): 58.

**TABLE 2. EAC BOND MARKETS**

	Total turnover in bond market, % bonds outstanding	Total sovereign and corporate bonds outstanding listed on exchanges (USD billions)	Amount outstanding (% of GDP)
Kenya	40%	17.5	23%
Rwanda	2	0.2	11
Tanzania	12	4.4	12
Uganda	0	3.0	11

Sources: Thomson Reuters, national stock exchanges, and African Securities Exchanges Association.

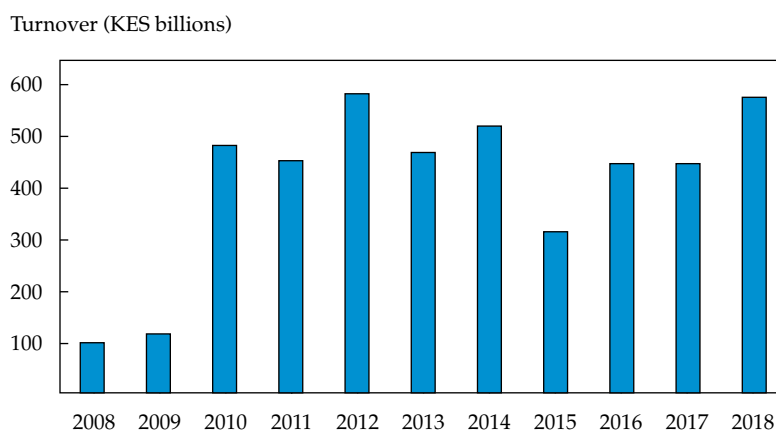
policies and the implementation of development programs and serving as an alternative to external development financing or overseas aid.

## Kenya

The government of Kenya floats both short- and long-dated Treasury bonds, which account for 98% of the total outstanding bonds (see **Figure 1**). As of the end of 2018, banks accounted for 51.4% of the total outstanding stock of Treasury bonds, as shown in **Table 3**. Treasury bonds accounted for 61% and 30% of the total domestic public debt and overall public

debt, respectively, as of June 2018. As of March 2019, the largest portion of the total assets under management by collective investment schemes was invested in government securities (including Treasury bills), at 51%. According to the CMA Q2 2019 bulletin, local corporate investors were the leading investors in corporate bonds, holding 99.33% of amounts outstanding, whereas foreign bond investors held 0.67% of total corporate bond holdings.

The yield curve extends to 30 years with five benchmark points along the curve at 2, 5, 15, and 20 years.

**FIGURE 1. KENYAN TREASURY BOND TURNOVER, 2008–2018**

Source: CMA Kenya/NSE.



**TABLE 3. OUTSTANDING STOCK TREASURY BONDS BY HOLDERS, JUNE 2018**

	Amount (USD billions)	Share (%)
Commercial banks	7.77	51.4%
Pension funds	4.91	32.5%
Insurance companies	1.33	8.8%
Parastatals	0.38	2.5%
Others	0.71	4.8%
Domestic debt stock	15.11	100%

Source: Central Bank of Kenya.

In February 2019, Moody's Investors Service downgraded Kenya's rating from B1 to B2 but assigned a stable outlook. Moody's forecasts government debt to increase to 61% of GDP in fiscal year 2018–2019—up from 56% of GDP in full-year 2016–2017 and 41% of GDP in full-year 2011–2012.

## Challenges and Opportunities

The current interest environment in the country is not necessarily conducive to bond issuance. Whereas bond investors tend to ask for a premium above government debt, the lending rate for banks has been capped at 4% above the central bank rate since 2016, thereby eliminating proper risk pricing.

Bank collapses have greatly affected the corporate bond market because most of the issuers are financial institutions. Furthermore, competition for alternative sources, such as private equity, is another key impediment to the growth of the corporate bond market. Issuers have preferred favourable foreign-currency-denominated financing, rendering the local corporate bond market financing less competitive.

Secondary markets are generally fragmented and illiquid, hindering transparency and price formation. This is reflected in low turnover (average bond turnover/value of outstanding bonds), which in 2018 stood at 26.8%.

Kenya's increasing access to international financial markets has helped it reduce the amount of concessional debt and grow its commercial and semi-concessional loans. With most developed market yields trading below or close to zero, bond markets such as Kenya's have become attractive to foreign investors because of the high-yield advantage. This dynamic was recently confirmed in May 2019, when Kenya's USD2.1 billion eurobond was oversubscribed at Ireland's main stock exchange by 4.5 times. The bond was split into two tranches of 7-year (USD900 million) and 12-year (USD1.2 billion) tenors, priced at 8%. It was also the country's third issue in the European capital markets.

Kenya's debt market is also experimenting with a novel idea: the first retail bond, dubbed M-Akiba. Launched in 2017, the bond—a 10% coupon three-year bond—is sold through mobile phones with a minimum investment of USD30. The



project is intended to reduce the government's borrowing costs in the long run. The bond enjoys a tax-free status like other infrastructure bonds.

The market has also embraced the Green Bonds Programme. Launched in March 2017, the initiative seeks to catalyse the market for green bonds with the National Treasury and indicates that its debut sovereign green bond will be issued during the fiscal year 2018–2019. This step will make Kenya the first in East and Central Africa to issue a green bond. Finally, the debt market is working on a hybrid bond market that will see the introduction of an off-exchange trading platform to complement the existing on-exchange platform.

## Uganda

The Bank of Uganda (BoU) conducts bond auctions every 28 days with maturities of 2, 3, 5, 10, and 15 years. The local currency government securities market is relatively small, with about USD3 billion nominal value in issue. The BoU can reopen issues to build up the market volumes of individual bonds.

There's a narrow investor base for government securities. Non-banking institutions hold nearly 50% of the stock of Treasury bonds (excluding those held by the BoU, the National Social Security Fund is the largest single holder at 40% of the stock). Banks hold about 43% of the stock and non-residents about 7%, as **Table 4** shows. The retail sector can access the auction on a non-competitive basis, although its aggregate holdings are small (1.5%). As of the end of June 2018, the total stock face value of Treasury bonds was USD2.6 billion.

In the year ending 2018, a breakdown of assets under management (AUM) by CMA Uganda, shown in **Table 5**, show that investment in government bonds accounted for 58.3% of total AUM, which stands as the highest among the main asset classes. Corporate bonds accounted for 0.5%.

Furthermore, Uganda's capital markets have not witnessed any new corporate debt issuance since 2013, when sugar manufacturer Kakira Sugar issued its USD20 million corporate bond. Since the market's beginning, only nine

**TABLE 4. GOVERNMENT DOMESTIC DEBT BY HOLDERS, JUNE 2018**

	Amount (USD billions)	Share (%)
Commercial banks	2.17	42.56%
Other financial institutions	1.00	4.88%
Offshore investors		6.81%
Pension funds	1.64	40.6%
Insurance	0.56	2.17%
Retail investor	0.13	1.49%
Other	0.6	1.50%
Domestic debt stock	6.13	100%

Source: Bank of Uganda.

**TABLE 5. CMA UGANDA ASSETS UNDER MANAGEMENT**

	AUM
Government bonds	58.3%
Equities	20
Treasury bills	10.9
Fixed deposits	7.9
Cash	1.1
Real estate	0.6
Corporate bonds	0.5
Off-shore investments	0.4
Other investments (foreign currency)	0.3
Total	100%

*Note:* Data are as of the end of 2018.

*Source:* CMA Uganda.

corporate bonds have been issued, raising over USD80 million combined, with the majority of the issuers being financial institutions in the banking sector.

## Challenges and Opportunities

Although the BoU introduced the primary dealer system in 2003, only two out of the six primary dealers account for almost all transactions. Most are often not able to make two-way quotes even in the benchmark bonds. There's an insufficiently clear boundary between the role of the government as an issuer and the BoU as its agent.

Although short selling is permitted, there is no clear legal framework enabling it and short selling is not practical, given the lack of securities lending or modern horizontal repo. The BoU uses vertical repo as the main liquidity

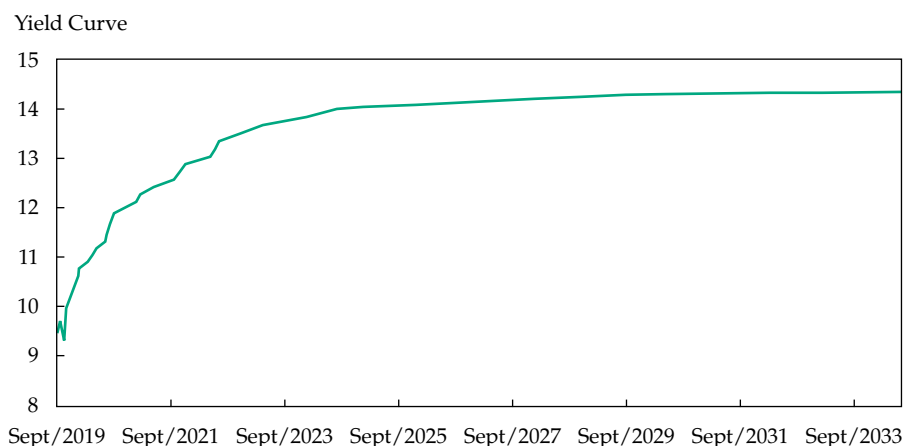
management tool, which is in line with the monetary management framework of inflation targeting. The tenors range from one to seven days.

Auction results are not announced speedily and equally to the entire market. A high number of bond issues has resulted in fragmentation of the markets, which has, in turn, led to a less liquid market and resulted in inaccurate market pricing of other financial instruments. Benchmark yield curve development is limited, with many issues outstanding, as **Figure 2** shows.

In a bid to improve liquidity in the secondary market for government securities, the BoU instituted primary dealer reforms for the government securities market. The performance of the commercial banks during Phase 1 of the reforms has been evaluated, and the banks have generally improved in their role as market makers. Preparations are now underway to roll out Phase 2 of the primary dealer reforms in fiscal year 2018–2019.

The BoU is also in the final stages of drafting regulations to operationalise the Global Master Repurchase Agreements that will support the development of the horizontal repo market—a development expected to enhance liquidity. Furthermore, in 2017, following a feasibility study on the viability of using the mobile phone as a platform for trading in government securities, the government is now planning to create such a platform.

Lastly, the market is in the process of linking its Securities Central Depository (SCD) to electronic clearing and settlements that will enable trading of government securities at the USE. This initiative is aimed at enhancing retail access to government securities through the network of securities brokers.

**FIGURE 2. GOVERNMENT SECURITIES YIELD CURVE**

*Note:* Data are as of 2 August 2019.

*Source:* BoU.

## Tanzania

The bond market in Tanzania was established in 1997 with the introduction of two-year bonds. Bonds with maturities of 5, 7, and 10 years were introduced in 2002. The Bank of Tanzania (BoT) issues the bonds in the primary market on behalf of the government through monthly auctions. In order to enable market participants to issue new bonds or buy and sell issued bonds, the bonds are listed at the DSE.

Repurchase agreements were introduced to complement treasury bonds in the conduct of open market operations. In 2003, the government opened up the DSE to foreign investors. Several regulations were published in the same year to guide foreign investors' dealings in the stock exchange and establish regulatory safeguards for orderly market activities. In 2008, Tanzania harmonised the redemption and settlement of government securities to T+1. Investors wishing to buy or sell Treasury bonds

go through the DSE via registered broker/dealers.

The market is dominated by commercial banks and pension funds, as shown in **Table 6**. The bonds are listed at the DSE, but the secondary market trading of government bonds has not been vibrant. As of the end of March 2019, total debt stock stood at USD27 billion, external debt stock at USD21.5 billion, and domestic debt stock at USD6 billion.

Bonds hold the largest share in domestic debt stock, at 73%, in line with the government's medium-term debt management strategy to mitigate refinancing risk by lengthening the maturity of the debt portfolio. In 2018, Tanzania's debt was assigned its first credit rating (B1) by Moody's. The rating was accompanied by a negative outlook; Moody's cautioned the country's debt could rise to 43% of GDP in 2020. However, the agency expects the debt burden to remain below that of its regional peers.

**TABLE 6. GOVERNMENT DOMESTIC DEBT BY HOLDERS, MARCH 2019**

	Amount (USD billions)	Share (%)
Commercial banks	2.17	35.5%
BoT	1.00	16.4
Pension funds	1.64	26.8
Insurance	0.56	9.3
BoT's special funds	0.13	2.2
Other	0.6	9.8
Domestic debt stock (excluding liquidity papers)	6.13	100%

Source: Bank of Tanzania.

## Challenges and Opportunities

Tanzania has partially liberalised the capital account to the EAC residents under conditions that have limited the participation of those same EAC residents. In addition, a foreign investor in local capital markets is allowed a maximum of 40% of government securities.

Pension fund holdings of government securities account for over 40% of outstanding government bonds, which are not made available for sale. Consequently, the inadequate volume of instruments in the market has led investors to hold their securities until maturity. The absence of a horizontal repo market means government bonds are even more illiquid. The BoT only uses reverse repo to smoothen liquidity needs in the banking system.

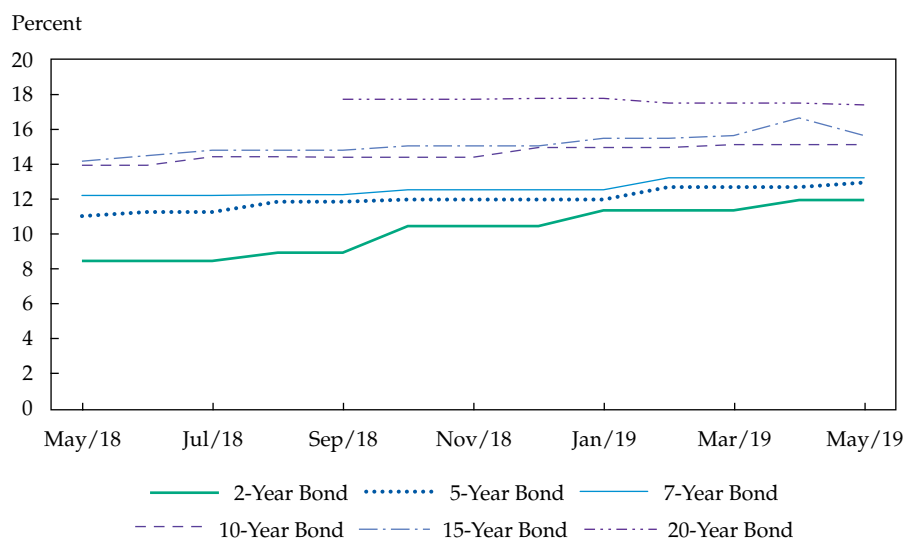
Building a yield curve is a consideration for issuance and a repo market is in place, but clear benchmark maturities don't exist. In essence, there's no benchmark yield curve in the country, as shown in **Figure 3**.

The absence of a legal and regulatory framework supporting both OTC and exchange-traded bonds is impeding their development.

The introduction of a platform for micro-investment in government securities, which aims at extending the securities market for the participation of low-income investors through the use of mobile bidding, is set to take advantage of an extensive mobile payment system in the country.

## Rwanda

The Government of Rwanda issues Treasury bonds on a quarterly basis through the National Bank of Rwanda. As of the end of June 2018, Treasury bonds outstanding are at USD218 million, as shown in **Table 7**. The dominant holders of Treasury bonds are institutional investors at 54%. Previously, commercial banks held as much as 50% (2014), but over the years, they've slowly reduced their share to 36% (2018). These numbers show that

**FIGURE 3. TANZANIA BOND MARKET RETURNS**

Source: Bank of Tanzania.

both institutional and retail investors possess a good appetite in for investing in government securities.

In June 2018, the government successfully reopened a 15-year fixed-coupon Treasury bond. The issuance was successful, with a remarkable subscription level of 311%, and was from a bond previously issued in 2017.

## Challenges and Opportunities

Despite a rising savings rate, Rwanda's capital markets are underdeveloped, which impedes their ability to intermediate long-term finance effectively, moving money from savers to borrowers. There are no primary dealers in Rwanda. The lack of market makers and investors holding bonds to maturity affects the liquidity of the

**TABLE 7. TREASURY BONDS OUTSTANDING BY HOLDERS, JUNE 2018**

	Amount (USD millions)	Share (%)
Commercial banks	79.0	36.1%
Institutional investors	120.0	54.9
Retail investors	19.6	9.0
Total	218.6	100%

Source: NBR.

bonds. Lack of information is also a barrier to investing in the bond market.

Interest earned on fixed-income securities is subject to a 15% withholding tax; a 5% reduction is available on interest earned on Treasury bonds of three years or more.

Corporations are expected to start issuing private bonds to get long-term financing. While most of the EAC's bond markets are largely inactive, increased focus on addressing the impediments to the development of the local bond markets is important and welcome.

## BANKING AND FINANCE

Following the signing and ratification of the Common Market Protocol, the EAC Secretariat established the EAC Financial Sector Development and Regionalization Project I (FSDRP I) in collaboration with the World Bank and other development partners. The project development objective is to establish the foundation for financial sector integration among EAC partner states.

The higher-level objective of the program is to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC partner states, with a view to making a wide range of financial products and services available to all, at competitive prices.

The FSDRP I has the following six components:

- Component 1. Financial Inclusion and Strengthening Market Participants
- Component 2. Harmonisation of Financial Laws and Regulations
- Component 3. Mutual Recognition of Supervisory Agencies

- Component 4. Integration of Financial Market Infrastructure
- Component 5. Development of the Regional Bond Market
- Component 6. Capacity Building

The banking sector is playing a major role in propelling regional financial integration in the region by adopting a regional business model motivated by a range of factors, including client demand and opportunities perceived along the regional trade corridors.

Kenya leads the region with the largest banking industry. Its commercial banking sector is the fourth largest in sub-Saharan Africa, after South Africa, Nigeria, and Mauritius. It is followed by Tanzania, Uganda, Rwanda, and then Burundi. The region's banking sector has undergone a huge transformation in the last 19 years, having recorded cross-border expansion since the 2000s.

At the end of 2012, Kenyan banks had set up a substantial branch network with 251 branches in the EAC (including 31 branches in South Sudan). A total of 11 multinational and Kenyan-owned banks are performing cross-border banking business in the EAC. Top Kenyan banks with operations in the region include Kenya Commercial Bank (KCB), Diamond Trust Bank, Equity Bank, Commercial Bank of Africa, and Co-Operative Bank.

### Kenya

Kenya is arguably the strongest economy in the region; its financial sector is considered the third largest in sub-Saharan Africa. The country's financial sector has been characterised by the adoption of technology, the emergence of alternative channels of distribution, increased financial inclusion levels, and a stable regulatory environment—all of which have driven growth.

The country's banking sector remains a key contributor to economic growth and job creation. The government remains focused on creating a lively and globally competitive financial sector under its ambitious Vision 2030.

Kenya has 42 commercial banks and one mortgage financing institution. The sector has had its fair share of turbulence in recent years, even as the Central Bank of Kenya (CBK) has continued to institute sound governance and adopt global standards.

International Financial Reporting Standard (IFRS) 9 came into effect on 1 January 2018 and saw the country move from the previous provisions for accounting purposes guided by International Accounting Standard (IAS) 39. In August 2017, the CBK issued a Guidance Note on Cybersecurity "to all commercial banks and mortgage finance companies that outlines the minimum requirements for banks to enhance their cyber risks framework.

"The banking sector is projected to remain stable and sustain its growth momentum in 2018 as the outcomes of various reform initiatives in the banking sector start to manifest.

"Some of the reforms and initiatives planned include;

- review of the legal and regulatory frameworks for institutions licensed under the Banking Act.
- development of a pricing index of cost of banking services and products.
- review of emerging disruptive technology such as distributed ledger technology, cloud computing and artificial intelligence and formulating appropriate regulatory responses to emerging risks from these technologies" (Central Bank of Kenya, Bank Supervision Annual Report 2017, p. XI).

Current key challenges in the sector include interest rate caps, which restrict commercial lending rates at four percentage points above the CBK rate, and regulation addressing banks profiling SMEs and individuals as high-risk borrowers, denying them credit.

Mergers and acquisitions are expected to continue, with the latest being the NIC Bank merger with Commercial Bank of Africa and the Kenya Commercial Bank move on the National Bank of Kenya.

On 1 June 2019, the CBK launched the country's new generation banknotes, which, apart from meeting constitutional requirements, appear to be taming corruption in the country. The aim is to prevent holders of looted cash from depositing the older notes, while preventing them from exchanging notes.

Kenya remains a pioneer in the fintech space in the region and the continent at large. Renowned globally as a pioneer in mobile money through the M-Pesa platform, the country continues to command attention in financial technology innovations. This characterisation is supported by the high mobile penetration, which has surpassed 100%; active customer subscriptions stand at 46.6 million.

Over 38 fintech companies have been established in the country as they seek a piece of the vibrant fintech market. The capital, Nairobi, is a hub, and digital technologies are rapidly growing in terms of both providing solutions in credit availability and enabling small businesses to access loans, as well as allowing individuals to invest via mobile digital solutions.

Kenya has embraced the blockchain and artificial intelligence (AI) technologies that have been identified as effective tools to curb corruption, land fraud, and election disputes. The government has expressed confidence that the two



instruments will help increase the level of integrity, security, and reliability for the information it manages, reducing the risks associated with having a single point of failure.

Kenyan pension fund assets stood at USD11.3 billion as of June 2018, as shown by the Retirement Benefits Authority (RBA) data. The country remains focused on growing the sector. The bulk of the investments (93%) are still in traditional asset classes of fixed income and equities. There are, however, concerns over scarcity of innovative alternative investment vehicles; pension schemes have thus tended to overinvest in fewer asset classes.

Investment opportunities remain high in such segments as energy, private equity, affordable housing, and infrastructure projects.

## Tanzania

Tanzania is the second-largest economy in the EAC and the tenth-largest in Africa. The country is largely dependent on agriculture for employment, accounting for about half of the employed workforce. The country embarked on financial liberalisation 27 years ago (1992) to sustain its economic growth. This liberalisation has included mobilisation of financial resources, increased competition in the financial market, and enhanced quality and efficiency in credit allocation. As a result, the sector has been booming, particularly during the last few years.

With a total of 56 licensed banks and other non-banking financial institutions, the country's banking industry continues to show resilience. The market is dominated by a few big players, despite several small banks commanding a sizable share of the market. Currently, about 40 local and foreign private commercial banks are registered with the Bank of Tanzania, the country's central bank. The sector has witnessed the

privatisation of local state-owned banks, but the government maintains minority shares in CRDB Bank, National Bank of Commerce (NBC Tanzania), and National Microfinance Bank (NMB), among others.

Interest rates vary between 17.2% and 18.3% for large and personal loans, with an average of 11.14%. The high interest rates in a liberalised market are pegged on the risk associated with consumer credit fraud. In the past few years, the sector has faced challenges of poor lending policies and overexposure, especially in a faltering real estate sector. Other challenges are a high number of non-performing loans (NPLs) and lack of capital buffers in some institutions.

In 2018, the BoT suspended five banks from trading in the interbank foreign exchange market for breaching regulatory rules. A number of reforms are being implemented, including requiring TZS1 billion (USD435,175) capital to operate a currency exchange.

To tame NPLs, the BoT is counting on the minimum core and total capital ratios, which have been raised to 10% and 12%, respectively. Banks and financial institutions are also required to hold an additional capital conservation buffer of 2.5% of risk-weighted assets and off-balance-sheet exposures. These measures, combined with some cost-cutting measures, are expected to continue strengthening the country's banking sector.

Like her neighbour Kenya, Tanzania has been embracing financial technology, which continues to deepen financial inclusion in the country. Fintech and mobile money remain strong drivers of the economy. Challenges in the fintech sector include lack of resources, lack of infrastructure, and low financial literacy.

The performance of pension schemes remains low, which has led the government push to

merge its seven social security funds into two schemes—namely, the Public Service Social Security Fund and the National Social Security Fund (NSSF). The government currently restricts any foreign entities from entering this arena and heavily regulates this sector because it is dependent on future recipients. The pension funds have been scrutinised under the Public Service Social Security Fund Act (2018), which now holds a total of TZS5.518 trillion (approximately USD2.2 billion) in assets.

## Uganda

The country's financial sector is made of formal, semiformal, and informal institutions. The formal institutions include banks, microfinance deposit-taking institutions, credit institutions, insurance companies, development banks, pension funds, and capital markets.

The Ugandan financial sector is relatively well developed and has remained resilient to both internal and external shocks. About 47% of Ugandans have financial services accounts, with mobile money playing a critical role in financial inclusion. About 43% of the adult population has a mobile money account. The major challenge that remains is the fact that 76% of Ugandan adults live in rural areas. Financial institutions find it difficult to penetrate these areas, mainly because of lack of incentives and an inability to mitigate perceived operational risks. The majority of the population also lacks disposable cash; about 48% of Ugandan adults rely on farming and fishing activities for money.

Uganda's banking sector is composed of 25 commercial banks, one development bank, and several micro-deposit and credit deposit institutions. Most of Uganda's largest commercial banks are foreign owned. The BoU has been leading a national Financial Inclusion Project to increase access to financial services

and empower the users of financial services. Banks have been forced to innovate into mobile money services and agency banking because many people prefer mobile money transactions to formal bank accounts. This shift has helped its population address rational financial decisions and contribute to economic growth. The current challenge in the banking sector includes how to strengthen bank lending to the private sector, reduce lending interest rates in a financially sustainable manner, and reduce high operating costs.

The penetration of financial technology remains steady, with new partnerships between fintech companies and banks driving the growth of the sector. There are at least 50 fintech companies in the country. The government is keen to tap into the blockchain technology to drive economic growth. Areas targeted include agriculture, manufacturing and processing, service sectors, and information and communications technology.

Uganda's pension system is over 80 years old, having started in 1935 with the establishment of the public service pension scheme. The sector, however, covers less than 10% of the population. Uganda Retirement Benefits Regulatory Authority (URBRA) has been pushing for regulatory frameworks suitable for workers in the informal sector with the aim of introducing retirement savings arrangements that consider cash flow needs, income seasonality, competition for spending priorities, and alternative investment options.

## Rwanda

As a developing country, Rwanda has experienced rapid industrialisation owing to successful government policy. An economic boom starting in the early 2000s has improved the living standards of many Rwandans. The progressive

goals of the government have inspired the rapid transformation.

The country's financial sector is dominated by commercial banks and microfinance institutions, such as savings and credit cooperatives (SACCOs), insurance companies, and pension funds. The government has been keen to reform the sector, with great progress made toward modernisation. The financial sector can be described as stable, well capitalised, profitable, and liquid. The banking sector dominates the financial system at 65.5%, followed by pension, insurance, and microfinance with 18.1%, 9.8%, and 6.6%, respectively.

Rwanda's priorities are to increase long-term savings under its Financial Sector Development Programme, as well as enable greater savings via pension schemes so that credit availability to the private sector is attained. To achieve this goal, there are efforts to enhance the savings culture and the mobilisation of long-term capital for investment. The government has received backing from the World Bank and IMF to reform the sector in a program outlined in a policy framework paper<sup>24</sup> that stresses a greater reliance on market forces and the private sector, as well as a more export-oriented development approach. Growth potential for the sector remains strong, despite only 42% of the population engaging in the formal financial system.

Rwanda has 11 commercial banks complemented by numerous microfinance institutions and rural savings and credit cooperatives. The sector is regulated by the National Bank of

Rwanda. Access to affordable credit remains a big challenge in Rwanda, which is marked by a high interest rate regime with lenders extending predominantly short-term loans. The poor savings culture, limited rural access to banking products and services, and low incomes (i.e., low savings) also remain a challenge.

Another challenge, with Rwanda's small and underdeveloped capital market, is the country's inability to mobilise long-term stable financing to enable public and private sector access to long-term financing.

About 30% of the Rwandan population has no access to finance and is financially excluded. The country needs a supportive infrastructure—including the expansion of electronic payment systems for credit and debit cards, ATMs, and point-of-sale terminals—as well as harmonisation and integration among supportive pillars for the payment and settlement systems with the EAC partner states. The state is counting on a private credit reference agency, which is in place to improve access to credit.

Opportunities are in the development of commercial bank products and services, particularly in rural areas; competitive loan facilities; agricultural products and services financing; mortgage financing; and investment banking services, among others.

The pension market is characterised by low penetration; only about 10% of the population is covered. Mainly, the public and private sector salaried workers are covered via the government's Rwanda Social Security Board's defined benefit programme. Those lacking coverage are mainly non-salaried workers because the existing scheme targets public servants. Those who are self-employed participate on a voluntary basis. The government is, however, keen to revitalise the sector with the support of a draft

<sup>24</sup>IMF, "Rwanda: Tenth Review under the Policy Support Instrument—Press Release; Staff Report; and Statement by the Executive Director for Rwanda," International Monetary Fund Country Report No. 18/335 (30 November 2018): 44. [www.imf.org/en/Publications/CR/Issues/2018/11/30/Rwanda-Tenth-Review-Under-the-Policy-Support-Instrument-Press-Release-Staff-Report-and-46407](http://www.imf.org/en/Publications/CR/Issues/2018/11/30/Rwanda-Tenth-Review-Under-the-Policy-Support-Instrument-Press-Release-Staff-Report-and-46407).

law because it guides more people to pension schemes.

Growth of the financial technology sector remains steady in Rwanda, thanks to the development of a fintech hub in the country. The hub features a co-working space for fintech businesses, and acceleration programs supporting technology entrepreneurs have helped drive the sector's growth. With Rwanda boasting the second-highest use of mobiles in Africa and more than 50% of the population being unique subscribers, the fintech sector has a bright future. The sector will continue driving the country's agenda of financial inclusion, mainly by bringing on board the unbanked in rural areas.

Like its EAC partners, Rwanda has embraced developments in the blockchain technology, with a key focus on tracing its minerals—mainly tantalum, which it leads globally in producing. The country is also counting on the blockchain to drive growth of businesses and the economy at large. Sectors targeted for growth using the blockchain include finance, banking, travel, medical, and emerging markets.

## Burundi

The mainstay of the Burundian economy is agriculture, accounting for 32.9% of GDP in 2008. Agriculture supports more than 70% of the labour force, the majority of whom are subsistence farmers.

Burundi has a relatively small, developing financial sector dominated by banking institutions that control over 75% of total economy assets. There are nine commercial banks, two semi-governmental institutions, 11 insurance business companies, 26 microfinance institutions, and the National Bank of Economic Development (BNDE).

The country is yet to put in place a stock market to mobilise savings for investment. Its central bank, la Banque de la République du Burundi (BRB), issues 91-day Treasury bills to manage liquidity within the sector. Plans have, however, been underway to establish a securities exchange to support companies' fundraising in the wake of a slowdown in commercial bank lending.

The national pension system (INSS) covers only 5% of the people and accounts for about 5% of total financial assets.